



**City of Santa Barbara**  
Airport Department

**Memorandum**

**DATE:** November 19, 2008  
**TO:** Airport Commission  
**FROM:** Karen Ramsdell, Airport Director  
**SUBJECT:** Air Service Development Incentive Program

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**RECOMMENDATION:**

That Commission recommend approval to the City Council of an Air Service Development Incentive Program to support the development of new and added air service at the Santa Barbara Airport, effective November 1, 2008.

**DISCUSSION:**

Background

Santa Barbara Airport (SBA) is the busiest commercial service airport on the coast between San Jose and Los Angeles and provides the community with diverse air service to ten nonstop destinations. The economic impact of the Airport and its services has been estimated at more than one-half billion dollars annually.

Maintaining and increasing airline service at Santa Barbara has been challenging given the close proximity to Bob Hope Airport in Burbank and Los Angeles International Airport. Service has been achieved primarily because the community has a strong origin and destination market.

Historically, SBA has not offered monetary incentives to airlines for new or increased service based on the philosophy that such service should be able to sustain itself. SBA has relied on using its strong marketing program to promote all airlines serving Santa Barbara.

However, with the well-documented struggles of the aviation industry coupled with volatile fuel costs and the current economic climate, incentives are needed to strengthen a community's competitive position for new or expanded air service.

Airline Industry and Incentive Programs

While airlines have had financial difficulties in the past, the economic and financial crisis in 2008 has surpassed any previous impact. The airlines have undertaken numerous approaches to reducing costs while still providing air service to major and regional

markets. Some of those measures include grounding aircraft, raising fares, and charging for food, baggage, blankets/pillows, and priority seating. Large and small airports are expected to have frequency cuts between 6%-13% with corresponding seat capacity reductions.

With the airline industry now in a period of uncertainty due to the potential volatile fuel costs and a turbulent economy, airline route planning decisions are focused more than ever on establishing and maintaining route profitability. An airline's decision to serve a new market represents a significant investment and financial risk to the carrier. Incentive programs are designed to help offset costs when an airline enters or expands service during the important start-up period.

When faced with a choice of where to place additional air service, airline incentive programs are usually a determining factor in the airline decision-making process. Other market factors that influence an airline's decision to offer new air service in a community include route profitability forecasts, aircraft availability, market competition, airport costs, and the level of support an airline will receive from the community. Airline route planners pay particular attention to those communities that effectively partner with carriers and maintain a business-friendly environment at their airports.

#### Federal Aviation Administration Policy on Incentives

Because of the competitive nature of developing air service, it has become a common practice for communities and airports in the United States to offer incentive programs to support air service development. Federal Aviation Administration policy allows airports to establish air service incentive programs involving waivers or discounting of fees and charges imposed on airlines in exchange for new service. The incentives are limited to a defined promotional period and must be available on a non-discriminatory basis to all airlines that are willing to meet the incentive program criteria.

It is important to note that, although an incentive program will waive Airport fees for qualifying services, the new air service will stimulate additional revenues from passengers who use the service, including food and beverage and retail sales, parking and ground transportation fees, and passenger facility charges.

#### SBA Incentive Program

The purpose of the Air Service Development Incentive Program is to provide incentives to a new entrant or incumbent airline that provides nonstop service to any destination that currently does not receive nonstop service from Santa Barbara including those cities in the most current Santa Barbara Airport Air Service Strategic Plan.

In order to be eligible for the Incentive Program, the airline must provide a minimum of five flights per week.

## Program Components

1. New entrant or incumbent Airlines
  - Waiver of landing fees for a limited time not-to-exceed twelve consecutive months.
  - Marketing incentives not to exceed \$50,000.

Attachment: Resolution

RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA BARBARA  
ESTABLISHING AN AIR SERVICE DEVELOPMENT INCENTIVE PROGRAM  
TO SUPPORT THE DEVELOPMENT OF NEW AND ADDED AIR SERVICE  
AT THE SANTA BARBARA AIRPORT

WHEREAS, the City is the owner and operator of the Santa Barbara Airport (Airport);

WHEREAS, air service is vital to the economic growth, stability and quality of life of the City;

WHEREAS, the Airport is in competition with other airport operators to attract airlines to serve the Airport; and

WHEREAS, under the Policy and Procedures Concerning the Use of Airport Revenue issued by the Federal Aviation Administration (FAA) on February 16, 1999, the Airport can offer economic incentives to the airlines on a nondiscriminatory basis for a promotional period to attract airline service.

NOW THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SANTA BARBARA THAT:

Section 1. The Council does hereby adopt and direct the Airport Director to execute an air service development incentive policy as outlined in more detail below:

A. The Santa Barbara Airport will provide incentives to a new entrant or incumbent airline that provides nonstop service to any destination that currently does not receive nonstop service from Santa Barbara. The new or additional nonstop service must be one that has not been provided by that airline within the previous twelve (12) month period.

B. Components of the program for a new entrant or incumbent airline that provides nonstop service are:

1. Waiver of landing fees applicable to that nonstop service for a temporary period, not to exceed one year.

2. Marketing incentives for a promotional period, not to exceed \$50,000.

C. All media plans and other marketing plans must be approved by the Airport Director in order to qualify for payment. Payment for marketing activities will be placed by SBA to the media source, not the airline.

D. Incentives shall be offered on a reasonable, nondiscriminatory basis to all airlines, taking into consideration all relevant factors. A waiver of any rate or charge shall apply only for the individual flights that provide the qualifying service. Provided however, should the airline receiving the incentive program reduce the frequency of the new service, then corresponding reductions will be made to the incentive program.

F. Incentives, other than a waiver of landing fees, such as marketing, advertising and/or public relations support, shall be instituted in a manner that, in addition to promoting the new service and/or airline, shall also promote the Santa Barbara Airport.